SPECIAL MEETING
COMMITTEE ON HUMAN RESOURCES/INSURANCE

January 28, 2002 **5:30 PM**

Chairman Lopez called the meeting to order.

The Clerk called the roll.

Present: Aldermen Lopez, Sysyn, Pinard, Shea, DeVries

Messrs: P. Porter, H. Ntapalis, M. Daneault, A. Beaudry, K. Clougherty, Aldermen Thibault, Osborne, Garrity

Chairman Lopez advised that the purpose of the special meeting is discussion relative to a request to have certain retirement benefits improved by way of amendment to Chapter 218, Laws of 1973 of the City Charter.

Chairman Lopez stated before we get started I would like to set the stage for this meeting. This Committee has been charged by the Board of Mayor and Aldermen to agree or disagree with what has been presented by the Advisory Committee and Trustees of the Retirement Board. I don't plan on accepting any other plans to override the Advisory Board or the Trustees. If someone has a suggestion or would like to make a point, the Trustees or the Advisory Committee can take note. The first thing is we will have a presentation by Harry Ntapalis, Paul Porter and the Director of the Retirement System, Maurice Daneault. After the presentation, I would like to have the Committee, if they have any questions, ask those questions. If you have a lot of questions, try to keep it down to two or three so that other Aldermen can ask questions that they may want to ask. Any Alderman in the audience that desires to ask a question will be recognized. In the end, I would like the Committee to agree or disagree and send it to the full Board. I say this because we are addressing what is before us only. The Advisory Board and the Trustees are the ones who should be presenting things to us and not everyone. This is a process and we must respect that. It will then go to the full Board to agree or disagree. If it is agreed, then I am sure it is going to go to the State for a referendum question on the ballot for the public to vote yes or no. If the Board disagrees then I think they would have a hard time, in my opinion, trying to get something passed and I think they recognize that. With that, I will call the parties up to make their presentation.

Mr. Paul Porter stated I would also like you to allow Arthur Beaudry who is a trustee but also a liaison to the Advisory Committee to speak. I think his input will be enlightening. To my right is Maurice Daneault. Maurice is the Executive Director of the Retirement System. Maurice came to Manchester from the State of NH where he had extensive experience as the Assistant Director. Arthur Beaudry is a retired firefighter who is in the State pension system, but who has also been a trustee on the State Board for 13 years. He brings to the table a tremendous amount of experience in retirement. Harry Ntapalis is the Chairman presenting of the Advisory Committee and Harry will also have some input that I think will be very valuable. I would like to start off just briefly by going back. We hear that there are two types of participants in our present system. The employees who joined the system or were working for the City prior to January 1, 1974, commonly known as the pre-1974's and those of us who joined the system after January 1, 1974 who we will refer to as the post-1974's just for clarification. On January 1, 1974 the pension plan through the State legislature became a viable pension plan for the City of Manchester. The people who were employed prior to 1974 or the pre-1974's had an opportunity to join the system. All of us who joined the City after January 1, 1974 there was no alternative but to be in the new system and nobody has any quarrels with that. After January 1, 1974, all employees in the system working for the City of Manchester were on the same playing field. The deal was that anyone who retired had to reach the normal retirement age of 62 or under the Rule of 80, which meant years of service and age totaling 80 points, they could take a retirement. However, if they weren't 62, there would be a penalty attributed to them because they did not reach normal retirement age. I believe it was 1987 when the Board of Trustees in Manchester presented something to the Board of Aldermen that was passed on to the referendum and was voted in the affirmative that eliminated the penalty for only the pre-1974's. That benefit only accrued to a portion of the people in the system. In 1998, effective in 1999, January 1, there was an additional benefit granted to the pre-1974's that eliminated the Rule of 80. So, not only were the pre-1974's given two benefits, they didn't have to meet the Rule of 80 and they had no penalty. Now when they got into the new system they were guaranteed a 50% pension or a higher amount if the accrual…if someone had for example 40 years at 1.5% they would retire at 60%. So basically what happened is for all of us in the system, benefits were given to only a portion of the members of the same system because of legislation that was passed. Since 1974, I don't believe there has been any enhancement to the system for the post-1974's that has been fully paid by the City of Manchester. In the past couple of years there has been some great interest amongst the employees to try to find out what type of improvements might we make. This has been going on for two years. This started a couple of years ago and has continued. Ten months ago or almost a year ago there was an officially sanctioned if you will or Committee that was established by employees for employee participants of the system, whether they were from the old into the new or the new system so that anyone who had an idea was to bring it forward to that Committee for discussion. There have been ongoing discussions about various plans of enhancement over the last couple of years. We have had actuarial studies and when the numbers came back that were exorbitant we felt well we are not even going to ask the Board of Aldermen because it really wouldn't have been appropriate because the cost was in essence prohibitive. As trustees, we certainly have to understand the situation with the City pertaining to the taxes that are paid by all of the taxpayers and property owners of the City, however, we also want to bring forward to this Committee the results of a year's worth of work by the Advisory Committee and this is where we are at today. I just wanted to give you a brief history of where we came from, how we got there and where we are today. At this point, if you would allow I would like to have Harry Ntapalis come up and discuss a little bit about his Committee, the Advisory Committee. Perhaps he could relate who the members of the Committee are, their mission and what has been done over the past 10 or 11 months.

Mr. Harry Ntapalis stated I have a handout for the Committee members. It is really how the Committee is comprised. As Paul had mentioned, some years ago we had started historically looking at enhancements or changes and it was done in a very informal fashion. There were a number of individuals who were post-1974, pre-1974 people and even pensioners who had come to us and I know that Alderman Hank Thibault at that time had placed a phone call and this goes back a couple of years ago basically saying that he had some constituents that had come to him and said they were getting ready to retire, they were older individuals who had a number of years with the City of Manchester and finding out that the plan was not equitable. They were getting a rude awakening and he asked what can we do to look at making it a lot more equitable and bring some parity to the kinds of enhancements that exist. That is the thrust of what really started our momentum. The Board of Trustees were gracious enough to give us an opportunity and a forum during their normal meetings to discuss with them some of the concerns that many people, both union and non-union, management and labor, all had. At that point in time it was suggested very strongly as is the case with the State of New Hampshire that you have a working Advisory Committee that comprises representation from all ranks. I think what you see in front of you will give you a real good idea that we really haven't missed anyone. We actually went to COPE to suggest, other than Fire and Police and the School who are covered by the State pension plan to suggest to us who might be members to best serve and represent the constituency that would be most directly affected by enhancements to their retirement plan. Folks that were involved at the post-1974 level and even pre-1974 you see mentioned. Some of them are here tonight. Judy Heminger is here. She is a pre-1974 employee. Mike Roche is here. He is a pre-1974 employee. Ron Ludwig is a post-1974 employee. Some of the others were detained with vacation and so forth but it gives you an idea of the cross representation. Least of all, we didn't forget the pensioners because there are a good number of pensioners as you all know, over 400 individuals and Wilbur Jenkins has volunteered. He has a vast knowledge of how the City works and the pension works and he has been an excellent contributor to the overall plan and he represents a very large number of individuals who are of retirement age and they voice concerns quite often, particularly when health insurance issues and COLA issues come up. It is an excellent forum for us to be able to work as a think tank and on the second page you will see some of the generic mission issues that we are charged with and we work very closely with the trustees. One point that I would like to make that we have been doing since the very inception and as Paul may have mentioned for about the last nine or ten months we have been meeting formally as a committee once a month. We follow the normal trustee meeting by the following Tuesday. The trustees meet every second Tuesday and we meet the third Tuesday. As I said, we work as a think tank so what we try to do is glean out a lot of wish list items and that is kind of what we have done when we explored the benefits. When we looked at the benefits some two years ago, we must have had two dozen from various corners, both union, non-union and pension and we said this wouldn't work. It was kind of a compilation of an awful lot of items and it started to become very personal in nature. What we tried to do is boil it down to a generic wish list of the kind of enhancements that we see our fellows in other public sector environments traditionally get. People in Group 1 with the State of New Hampshire…obviously we know that schoolteachers and police and fire have a set of benefits through the State that exceeds ours but again they pay a lot more for that benefit. All we were trying to do is look at something that would bring us more in line with the times instead of leaving us as probably one of the oddities as far as a public sector employer when you look at pensioners that get out with a lot less benefits than some of their fellows do in other towns and communities. After we go through and work with things that would seem to best serve the vast majority, we look at the pros and cons and obviously the costs, which some of my fellows here will get into. One of the important things to know when we look at those costs is we look at them very seriously. We don't have the authority to go and chase down the actuary. That is all done through the trustees and it is controlled very nicely, but we will come forth to the trustees and basically say these are the two or three ideas that collectively the constituency, the vast majority of individuals, have gone to their representative and said they would like to see on the front burner and that is what brings us to the point tonight with the issues that my compatriots here are going to address shortly. One other point that I wanted to bring out and I don't want to get ahead of myself tonight but it is probably going to come out a little later anyway or I could wait if you fellows would prefer on the savings. I think I might cloud it up so I will reserve that piece of the puzzle so that it will make more sense when you hear some of the cost figures that Mr. Beaudry and Mr. Daneault will talk about shortly.

Mr. Maurice Daneault stated the proposal that you have before you tonight is to amend Chapter 218, which is the City of Manchester Retirement Plan, in two simple ways. The first is to amend the definition of normal retirement date by changing the normal retirement date or age rather from age 62 to 60. This would allow City employees to retire two years earlier than they can now without a reduction in benefits. This is the same benefit that currently teachers who participate in the NH Retirement System are getting. The normal retirement age is age 60. The second benefit is a change in the early retirement option so that a member could retire prior to age 60 and take a reduction of 2% per year for every year under the normal retirement age. The current reduction is what they call an actuarial equivalent. It is a graduated scale based on how many years prior to normal retirement someone might retire. For example, if someone were to retire five years prior to age 62 in the present system, their benefit would be reduced by 32% for having retired early. With the 2% reduction, that benefit would be reduced by 10% so there is a difference there of 22%. You have a copy of the draft of the legislation and I believe if you read it, it says that the reduction would be 1/6 of 1% for each month prior to age 60. The reason it is written that way is for administrative purposes so that when we calculate a retirement benefit we reduce it for every month under the normal retirement age. That essentially is what the membership is looking for. They are fairly simple benefits. They started out looking for benefits that were somewhat more complicated and somewhat more expensive and we were able to reduce it down to these two and we believe that these benefits will apply generally to a broader base of membership than some of the others that were considered.

Mr. Porter stated I would like to make one comment if I may. Maurice brought up a very good point that I think you should be made aware of. The initial go around with the benefits that we were looking at had a substantial price tag. What we were looking into and we felt an obligation to the retirees was medical insurance for the existing people and medical insurance for future prospective retirees. That cost was phenomenal. It just isn’t affordable. The other was to increase the accrual for the group of people between 1974 and 1998 that accrued at 1.5% to raise that to 1.75%. So there were a number of things…there were about four or five different items that we had started out looking at but recognized that the cost being so prohibitive, it would just not be prudent for us to even come forward with it.

Mr. Arthur Beaudry stated I also have a handout for the Committee members. For the new Board members that are here I just want to introduce myself. My name is Arthur Beaudry. I am actually the Board of Aldermen’s appointee to the Manchester Retirement System. I have 13 years of experience on the Board of Trustees for the NH State Retirement System and when I was appointed by the Board the trustees actually appointed me to be the Chairman of the Benefits

Committee, which allowed me to be the liaison between the Advisory Committee and the Board of Trustees. With that said, the first page gives the two piece so of legislation that are being introduced. The first one is the elimination of age 62 to 60 and the cost is $162,000. The second piece of legislation…really they are kind of a marriage if you want to look at it because one without the other is more difficult to…I think it is a lot less of a benefit but the second bullet is reducing the penalty from roughly 8% to 2% and it includes the Rule of 80. There was some information given out there that the Rule of 80 people were not going to get a benefit out of this and, in fact, they do. That is one thing that I brought to the table. I wanted to get benefits that were going to be across the board for everybody that was in the retirement system because it seemed in the past that there were only small portions of the membership who were getting a benefit and a large portion of the membership was being left out. The Rule of 80, if you look at the second page, it would give an indication. Somebody under the Rule of 80 who is 50 years old with 30 years of service, if you were to lower it to 60 years old, under the old system they would lose 52% of their benefit. Under the proposed benefit, they would end up losing 20% so they do gain 32% of a benefit. Everybody in the system is going to benefit by both of these pieces of legislation. If you go to the third page, this is the cost of the two pieces of legislation. We broke it down to the agencies that participate in the fund. I know there are some Aldermen who feel that it all comes out of the general fund, but this is basically how it is broken down through the retirement system. $246,986 would be coming out of the general fund. The Water Department would be coming up with the $17,430. EPD is $2,397. Aviation is $30,496. Probation is $1,309 and Retirement is $4,379 for a total of $303,000 for the two pieces of legislation. If you go to the next page, the breakdown basically shows that we are looking at the bulk of the people in the system with both pieces of legislation. The bottom left hand corner shows that the average age currently in the system is 44.78 years old or almost 45 years of age. The average years of service is 9 years. If you look at this, people who are 55 are going to have basically 20 years of service. This benefit is going to provide a benefit for the bulk of the people who are in the system. The average entry age is 35 years old. That is the average entry age coming into the system. If you go to the following page, it is a breakdown basically of the cost savings that the system has given the City because of their prudent investments over the course of time. In 1985, the City was paying $1.42 million. Currently they are paying $1.1 million. From 1985 to date, they saved $1.8 million because of the prudent investments that the trustees have done with the portfolio of the system. Even with these benefits put into place, you are still going to be paying less than you were paying in 1985. If you add on the $300,000 to this, you are basically going to be paying what you were paying in 1985 and this is a projection. Once we have some history on the benefits over the years, they could go down and they could go up. We look at it as realistically how many people can retire at 55 years old under the structure, even with the 2% reduction, when they have to pick up such a phenomenal cost of healthcare. Right now the two-person plan is $637 with the City of Manchester. Somebody retiring, even if we go under the 2%, if they have 20 years at 2% that is 40% at age 55 and if they have to take a 10% reduction that means they are going to be retiring with a 30% benefit or 30% of their retirement and then they are going to have to pick up $637 a month for health care. So realistically people aren't going to retire at that young age but somebody who may be ill or may have hit the Megabucks or whatever and they decide they want to retire, they have an opportunity to retire at that point in time. The age 60 to 62, we wanted to mirror the State. The State right now is 60 years of age for retirement and that is basically what we wanted to mirror. I would let Harry speak on this but it is our feeling that by lowering the age and allowing the members to retire somewhat earlier, it is going to be a savings on worker's compensation and it is also going to be a savings because you are going to have your older people retire who are in the higher pay scale and you are going to be replacing them with new people at a lower pay scale. So with those two points there will be a cost savings to the City and I would really like to have Harry expound on that because he has the numbers better than I do. With that said these two pieces of legislation as I stated impact the vast majority of the members in the retirement system and the cost is relatively cheap. When I got on board in November, they were looking at five or six different pieces of legislation. We went before the Mayor with four pieces of legislation that totaled basically $2.4 million. The Mayor looked at that and said you have to go back and sharpen your pencil. What we did was we went back and told the Advisory Committee you have to come down with two pieces of legislation or whatever you think is the most beneficial and everybody in the room said that early retirement was the most beneficial. Healthcare was right up there, but the cost for healthcare was $2 million or close to $2 million a year, which we knew was not going to pass. Looking at the remaining pieces of legislation that we had to move forward with, the most palatable one is the early retirement and that is what we went with and we felt that carving this from $2.4 million down to $300,000 was sharpening the pencil pretty well. I would hate to see both of these pieces of legislation being scrutinized because I think they are very valuable and the cost is prohibitive. I think the Board of Mayor and Aldermen…as the Mayor eloquently stated at his Inaugural Ball, he appreciates the work that public employees do…the City people picking up the garbage and working on the streets and working at City Hall and it is great to tell them that they are doing a great job but they haven't had a benefit change in over 20 years and if you really mean what you say then this is the way that you would prove it and give these people something to show your thank you to the members who are doing a great job out there.

Alderman Thibault stated, Mr. Beaudry, you spoke about the savings that the City has had through the years. Could you explain that a little bit better? I am sure that some of these people didn't get that and I am sure it is a very important part of your presentation.

Mr. Beaudry replied under a defined benefits plan, if the assumed rate of return, which the retirement system has is a 7.5% rate of return. Anything over that assumed rate of return benefits the City. The City reaps the harvest on the rate of return over the 7.5% of investment. We can look at the last page, 1/1/01. The rate that the City should have been paying is $1.934 million but because of the excess earnings in the system over the 7.5% rate of return, the City saved $817,000. You really only paid $1.1 million. This year is a very bad year to be looking at this because of what happened on 9/11. What happened with 9/11 is it really skewed the market. We have already made back $4 million of the $12 million that was lost in the market. We already recouped $4 million of this. To say what is going to happen in the future…our managers came in and they are saying that by April they think the market is going to be turning around and it is going to be more beneficial to our portfolio. With that said, as long as we receive a 7.5% rate of return, your rates are going to continually keep going down. If there is no benefit change, there is no liability. The system is fully funded so without a benefit change there is no extra liability to the system so every cent that is over the assumed rate of return is going to be given back to the City where in the State pension fund we have a special reserve account and anything over the assumed rate of return goes into the special account that pays for added benefits for the members in that system. We don't have the luxury in the Manchester system to do that because the City reaps all of the benefits. Now if we wanted to establish a special account like we did with the State then the members would be reaping the benefits instead of the system. It is actually a compromise, what we are asking for with these two pieces of legislation. You will still be assuming whatever benefit is over the rate of return.

Mr. Ntapalis stated as Arthur touched upon, most of you know me and some of the newer Aldermen might not know that I have been involved for a number of years with the self-insured worker's compensation program. I can draw an analogy to some of the things that are being discussed and I know that costs are obviously near and dear to everybody, particularly the expenses and how things are rising. As you know our population of workers, their median age is in the 40's. That suggests that there hasn't been a lot of turnover for a lot of people who work in the public sector. It is a secure place to work and it is work that for the most part people enjoy doing. Many of the workers that we have, particularly in the labor intense departments, started at very young ages. Right out of high school in many instances. They work a number of years and many of them are very physically fit and they can do the demands year after year with the inclement weather and the repetitions to their bodies whether they are on the paving crew or cutting trees or whether they are pitching barrels but over time what I have gotten to see as Risk

Manager are repeat or individuals who were quite hardy and wearing…a lot of them are orthopedic injuries but by the time they have been doing this for 25 or 30 years they are beat. I talk about being self-insured since 1977 and the aftermath of what tends to happen is you could get an individual who has worked long and hard and served the City well and can't afford, because there is no accessibility and there is actually a disincentive for them to attempt to retire at a moderate age or a younger age even though they have worked for 20, 25 or 30 years simply because they are going to be penalized with what is known as an actuarial reduction and the penalty currently stands at 8% per annum between the time they opt to leave and the normal retirement age. What they do is they will continue to work until such time as they get injured. What that means to the City of Manchester in direct cost directly to the taxpayers who fund that particular piece is that you are probably going to have a worker's compensation claim that is going to cost money and lost time, medical and surgical intervention, and those dollars add up. To put it in real context, for the last several years my average range in paying worker's compensation in total and this is for claims activity only and not talking about administration fees, reinsurance costs, actuarials, in real hard terms direct claims costs for claims that may have taken place two or three years ago or in the current year are $1.5 million to $1.6 million per annum. Of that amount, you are really looking at about 15% to 20% of those claims costs or roughly $300,000 that are in the rank and file of individuals who have a number of years and have worked for a long time but due to a number of reasons they are not going to attempt, even if they are not feeling that well or if they have underlying problems with their backs or knees, are not going to leave because they can't afford to. Those individuals, I think if they were confronted with the same scenario and I am not saying all of them because we don't know the economic climate of most, but they may contemplate retiring and say I have an opportunity to work somewhere else if I can access my pension after 25 or 30 years and take a moderate reduction. I think some of those folks would go on and do something along those lines sparing themselves the aggravation and pain and suffering of an injury. To put that in context, even if you are looking at a $300,000 area where individuals are tantamount to that age in years of service that they be able to do something, even if 1/3 of that group were to fit the category and actually do something like retire a little earlier prior to injury, that is a direct savings that would defray any cost for feeding this particular system. The other thing and I am not really able to address…I mean it is something that HR at some point in time and I know they have done some preliminary work in that area over the last month but if you have individuals as my associates here said earlier, there wouldn't be because of simple economics a mass exodus. If anyone ever felt that you were going to lose a lot of workers all at once if and when we were to allow a lessening of the penalty, I don't see it happening because the big ticket item that keeps most people working is the double digit increases with no end in sight for health insurance and I administered that for about seven or eight years and quite frankly I have heard from probably every pensioner in the City with every hardship that they have in turning over their monthly check and reaching into their purse and pulling out whatever coins they have just to meet the expenses of their 100% health insurance. The point I was going to make is those that would be fortunate enough to leave, the odds are they worked long and hard for many years and they are probably on the higher end of the pay scale and it would also impact directly on the City because the odds are if you were to hire a replacement you would be doing so at an entry level. Those would be dollars save. It is hard to project how many of those folks would leave but if these financial incentives were built in, I think we would see some cost sharing in that area.

Alderman Thibault asked, Harry, what is the amount of people per year right now, the average that go on worker's compensation.

Mr. Ntapalis answered we have on average about 500 claims filed per year. Obviously the vast majority are medical only. Of those 500, you probably have a dozen out at any given time collecting what are called indemnity payments or a weekly check because their injuries are severe enough that they are out. Of that dozen, you are probably looking at maybe five to six who are looking for settlements. Settlements because they can't any longer do the particularly labor intensive jobs that they have had in the past.

Chairman Lopez stated I gave Alderman Thibault a privilege because he represents the Aldermen on the Board of Trustees.

Alderman DeVries asked, Harry, when you figured the $300,000 in worker's compensation claims that potentially could be saved, when you figured that you must have had an age break on the number of years of service.

Mr. Ntapalis answered these are the individuals who by and large range anywhere from 20 to 30 years of service. These are individuals who have the age, 50 to 55 years old so they certainly would meet the criteria of what we are proposing. They just happened to have worked a long time because they started very early and that is why they accumulated those years but unfortunately before they got to go out on normal retirement they were injured and they are our responsibility.

Chairman Lopez asked in the penalty reduction, the $141,000, is that a fixed rate or does that increase depending on the formula. Is that a fixed rate regardless of whether one person takes the 20 years at age 55 or 10 people take it?

Mr. Beaudry answered that rate right now is fixed for at least a year until they do another evaluation and as I stated where this is a new benefit for this system, they had no experience rating to evaluate the cost of it so what they did is they went to other pension funds similar to what our pension fund is and they looked at what their experience was of the other pension systems and they actually put that rate onto our pension fund. Initially they said that 25% of the membership would leave at age 55 but they weren't aware when the Director called them and said are you aware that we have to pick up the full burden of healthcare. They didn't know that so when they put that assumption in that people are going to have to pick up the full burden of healthcare, they lowered the 25% down to 10% I think. They lowered it considerably because they felt that realistically people aren't going to retire at age 55 with the benefit that they are going to get and have to pick up the healthcare cost. That number actually dropped the amount down to $141,000. The initial number for that benefit was $200,000 and it brought it down to $141,000 because they assumed that less people are going to retire. If we go forward with this and nobody retires, that number is going to go down considerably at the next evaluation. If, for some reason, 50% of the population retires, which is most unrealistic, then that rate would go up. My assumption in dealing with this and looking at the people who would retire, I think that number is either going to stay flat or it is going to go down. I personally think that unless you look at healthcare in the future, people can't retire. Even with a 2% reduction as I stated to you under the new method if somebody is 55 years old with 20 years of service, they are going to be retiring with a 30% benefit and have to pick up $637 a month for healthcare. It just isn't going to happen. I realistically look at that number probably going down but we won't know that until we run the gamut and get an experience on how many people are actually going to do this over the course of a year or two.

Chairman Lopez stated I want to publicly thank the Director for providing the answers to a bunch of questions that were developed by myself and the HR Director. I think it has helped everybody because the retirement system is very, very complicated. Nobody worries about it until they are ready to retire. I can assure you that I have retired twice so I am very familiar with the situation. The $246,000, that is all we are taking out of the general fund, correct? Kevin, do you have the answer?

Mr. Beaudry replied that is the number that we gave you on that sheet.

Chairman Lopez asked so the Water Works, EPD, Aviation, etc. are all separate.

Mr. Beaudry answered that is correct. If you talk to some Aldermen, they feel that it all comes out of the same coffer.

Chairman Lopez stated when we look at the Enterprise funds, which are separate and that is what we are speaking of and we are only looking at a general fund expense of $246,000, that is the amount coming from the taxpayers. Am I correct or are we going to deal with the $303,000?

Mr. Kevin Clougherty stated this is a defined benefit plan. If all of the money that is in the investments and everything else goes away tomorrow, you have to raise taxes to pay for it. Now the City has had some benefits and has had some earnings that it has taken advantage of but it has also taken advantage of all of the losses. If you went back to 1974, we have made up some money too. If you were to go ahead with this, you would have to pay the $303,000, which again is an estimate, but you would have to come up with that either through Airport funds or as it is broken down here in the general fund and you would have to raise that in taxes or cover it in some way. That is every year. In addition to what you are paying now, you would have to tack on $246,000 to your appropriation plus this year given that your earnings are down that is probably going to be up too so you are probably looking at a considerable amount of money that you are going to be committing to if you go ahead and do this.

Chairman Lopez asked what is a considerable amount of money.

Mr. Clougherty answered the estimates have been…well the $246,000 is the estimate of what this would be but given that every pension fund in the United States as a result of September 11 is down and every college endowment is down, the actuarial will probably come in higher than it has been in the past so the City's contribution is going to be more plus this.

Alderman Shea asked if this were adopted by the Board the implementation would be next year and not this year wouldn't it.

Mr. Clougherty answered it depends on the timing of this.

Alderman Shea stated but the referendum question wouldn't go on the ballot until November.

Mr. Clougherty replied say it takes effect on January 1, 2003. That is half the year. Depending on when it is effective and if it is effective retroactive…I haven't looked at that. It could be effective for half a year and you could be hit with something this year.

Chairman Lopez asked how would we account for that in our budget if it falls in the same year as the budget.

Mr. Clougherty answered if it falls in the same year of the budget, your contribution to the pension system, that one line, would increase by the amount of the actuarial plus this amount would be factored in so it would go up by that amount.

Chairman Lopez asked but would you have to include it whether the vote was there or not.

Mr. Clougherty answered I think you have to look at that, Alderman. If it is going to take effect mid-way through the fiscal year you have to provide for it.

Alderman Shea asked what about COLA's. Is that included at all?

Mr. Clougherty answered the COLA is part of the basic calculation for the City's contribution each year. If there is a COLA granted, that is calculated in.

Alderman Shea asked so it would be included in terms of the general fund contribution.

Mr. Clougherty answered yes. When they do the actuarial, they take a look at a number of things. They take a look at how many members are in the system, what are the mortality rates, what do you think you are going to get for your interest earnings during a particular time and all of these variables come into their arriving at what the City has to raise either from the employees or from the taxes or a combination thereof to make sure that there are sufficient funds in the general fund for pension to meet all of its requirements.

Alderman Shea asked, Maurice, did you say that teachers retire at age 60 now.

Mr. Daneault answered normal retirement age for teachers with the State pension plan is 60 years of age.

Alderman Shea replied that surprises me because I was in teaching forever and a day and when I say forever and a day I mean 40 years and I thought that you get absolutely zapped before the age of 65. You are saying that they are retiring at age 60 now?

Mr. Daneault responded age 60 is normal retirement.

Mr. Clougherty stated I just want to make my position clear on this. I am the Treasurer of the system and I am a Trustee but I haven't participated in these discussions because I don't think it is appropriate for the trustees to be advocating improvements to the system. That is why I haven't been involved. I think that is an issue. I realize that some of the other trustees disagree with me, but I just don't think it is appropriate and I will tell you why. We set this up as a system of checks and balances. The trustees are supposed to watch over the money and administer the plan as it is adopted and that is really what the trustees and what I feel my job as a trustee is to do, protect that money. In terms of the pension plan and the benefits, if you want to change that I think Harry and the Advisory Committee should come to the Aldermen and if the Aldermen want to change the policy that is fine. Whatever you decide we will administer but we are not in the role of trustees coming in and advocating improvements to the system because then there is a bit of a compromise as a trustee because you start to wonder well can you trust the numbers. That is why I just want to make sure that you understand my position. I am answering the questions you have asked me but I am not here advocating for or against these because I don't think that is my role as a trustee.

Chairman Lopez responded I am glad you clarified that. I asked you the question as the Finance Officer.

Mr. Clougherty stated at the State what happens is the trustees for the State Retirement System don't advocate changes to the system. The unions or the working groups would bring in recommending legislation to the legislative body, which would be the Legislature and they adopt the changes. Once the changes go through then the trustees administer that to the letter of the law but they are not out advocating one way or the other. I just want to make sure that you realize that is my position here tonight. I am not advocating one way or the other.

Alderman DeVries stated my question is in reference to one of Mr. Beaudry's handouts, but probably most appropriate for you, Kevin. The yearly employer retirement contribution on the fourth page shows an increase between the year 2000 to 2001 of approximately $400,000 that the City would have contributed, an additional $400,000. Now that was a year when there were no changes made to the benefit so is it safe to assume that the increased contribution by the City of approximately $400,000 would have been due to performance of the system.

Mr. Clougherty replied it is more than likely due to changes in Yarger Decker and changes to the contracts and things of that nature.

Mr. Porter stated if I may, there was another issue that some members of the School Department were included for the first time and it was a substantial portion of the $400,000.

Alderman DeVries asked so it is not likely that we would be looking again at an increased contribution in that range as well as…

Mr. Clougherty interjected not for the same reason but certainly you could be.

Alderman DeVries asked and it could also be larger, the increase that is due from the City. When would we know these numbers of what the City is actually going to…

Mr. Daneault answered the actuary is performing the January 1, 2002 evaluation as we speak. We should have the results by April or May.

Alderman Pinard asked what would be the effect on the tax rate. I am sure when we come out with the news on this the people out there will want to know what it is going to cost them.

Mr. Clougherty answered they have calculated about six cents.

Alderman Pinard asked and how many people are eligible for this if we adopt it. How many people are at age 60 that would qualify for this?

Mr. Porter answered there are 60 people right now between the ages of 60 and 64. If we just, Murphy's law, cut it in half, you may be talking at the most 30 people.

Alderman Osborne stated I was just wondering on the 8% here when you are going on the age 62 plan you are talking 8% per year if they retire earlier. If they retire at age 50 then it is 8% per year?

Mr. Porter replied it doesn't figure out exactly to 8% for every year. It is a sliding scale. For example if someone retires five years prior to normal retirement age now it averages 6.42%. If they retire one year prior to normal retirement age or age 61, it would be 7.8% for that year. It is a sliding scale. After 12 years, it averages 4.83%, but at age 50 there aren't too many people, if any, who would ever be able to retire simply because the penalty would be more than the pension.

Alderman Osborne asked and then it drops to 2% at age 60.

Mr. Porter answered 2% per year.

Alderman Osborne asked so if you take two years less in retirement and you are only taking a 2% penalty, how does that work out for a guy who say starts working at age 20, retires at age…well you have 20 years that you have to work right so he retires at age 40. What would he be penalized?

Mr. Porter answered the minimum age is 55.

Alderman Osborne asked oh you have a minimum age.

Mr. Porter answered yes and ironically as Arthur pointed out this somewhat mirrors…the average starting age of employment with the City is 35.9 and I must clarify that it is not police and fire. They are in the State system. I should clarify that it is members of this retirement system and the average years of service is approximately 20. Sandi from the Retirement Office did a study for us and over a five year period the average retirement age was 61 and the average years of service was between 20 and 21 as it is now. I would like to make a comment also that I agree 100% with my colleague, Mr. Clougherty. He is absolutely right. I won't say it is a conflict, however, it isn't appropriate. Our main function is fiduciary as trustees and is to the health and safety of the numbers and the administering of the plan, not to be something that touts the benefits, however, since 1974 there hasn't been a grass roots committee that I am aware of that ever came forward. From this day forth if you will, the trustees…I would recommend that we do not get involved in this same position. I don't think it is inappropriate for us to make the presentation but not to take a position pro or con as a trustee. That is absolutely correct. Now we do have that Advisory Committee in place and that is the direction from where benefit improvements, enhancements or changes to the system should come from to the Board of Trustees. They have to come to us at some point because individuals can't go to the actuary to get the numbers that they need to present to the Board of Aldermen when obviously one of the concerns is what is the tab. That would have to be done by a vote of the Board of Trustees. Now we recognize that this isn't the end all to any and every possible enhancement to the plan. It is simply one and it is the first one that we are asking the City to fully subsidize over the past 28 years. I think it is important to remember that everybody has their own personal preference. We did study the possibility of retirement with 30 years of service with no penalty. There is nothing new with that. That was brought in by Harry two years ago. When we looked into that and got costs, everything tied together just didn't make a whole heck of a lot of sense financially. If I had 28 years of service I would be all for the hey I don't want to pay a penalty, give me two years and I am out but if you take a person who is 42 then that is a little bit of a different story so every person in the system, all 1,265 participants could have their own menu or wish list. What we are trying to do is optimize the benefits for the maximum number of people to benefit from them.

Alderman Thibault stated one thing that I think everybody should look at every carefully is a point that Harry brought up before. When you are looking at the workman's compensation cost to the City I think that you should consider this in your overall plan here. There might still be a savings to the City. I am not advocating one way or the other right now. All I am saying is Harry brings up one of the better points I think about this whole thing. I have been involved in this thing for a long time with Harry. It goes way back to when I was on this Board 20 years ago. I worked with Harry very closely on some of this worker's compensation cases and they are very expensive to the City, believe me. This is something that you should consider in your overall plan.

Chairman Lopez stated just for the Committee's information, we can put an effective date on the referendum question so that it won't affect the half a year budget as Kevin said. You can make the effective date July 1, 2003 for example and that way you will be in sync with the City's budget year. Just keep that in mind.

Alderman DeVries stated I just want to pursue a little bit and Arthur you would probably be best, following this bill as it goes through Concord it goes first to the legislature and it would go as it is being presented or if approved by us today and then it would go on to the Senate to be…

Mr. Beaudry interjected that is correct. The process up there right now is the bill was introduced by a House member so it has to go through the House Committee first and then it will go over to the Senate and the Senate would take a second look at it and then once it passes the Senate it would have to go to the Governor for signing and then it would come back to you people and I believe you have to have a public hearing on it and then after the public hearing it gets introduced on the ballot and the public has the final say on the referendum.

Chairman Lopez asked Deputy Clerk Johnson to clarify the process.

Deputy Clerk Johnson answered what he is referring to are two separate processes. One is the State process because the retirement system is a legislative enactment as well at the State level so it has to change at the State level first. If the State level allows the change then it does have to go to the voters and the only way to do that is like a referendum. Normally, it would require a vote of this Board to order the question to the ballot and the process for that is first a public hearing and then you have so many days that you have to act to order it to a ballot.

Alderman DeVries asked the timing for when it goes to the Senate and the possibility for any amendments being made within the Senate, I understand that even if the bill is introduced or has already been introduced in the House verbatim that it could be amended within the Senate and when would you expect that finality.

Mr. Beaudry answered right now I believe cross over dates between the House and Senate is somewhere around the February vacation. You can amend this bill and I hope that personally that is not the intention of this Committee but this bill can be amended through any one of the committees. It has to go through two committees in the House and two committees in the Senate and then it goes to the Governor if it passes so in any one of those four committees you can change the language in this bill.

Alderman DeVries asked but if it is due in February as far as the finances of the City, if you are not expecting your actuarial results until April that won't…

Mr. Beaudry interjected this is going to be a done deal by April.

Alderman DeVries stated so it wouldn't be until it came back to the Board of Mayor and Aldermen that we would have a chance to reflect upon the true costs that the City would be contributing.

Mr. Beaudry replied we know what the true cost is of the legislative changes.

Alderman DeVries responded but for the year.

Mr. Beaudry stated for the following year we won't know that until April or May. That is correct.

Alderman DeVries asked but we could amend it when it came back before it goes to the voters or it can't be amended once it comes from Concord.

Mr. Beaudry answered my understanding is once it goes through the legislative process you can't amend it. At that point you would have to reintroduce an amendment to go back through the Legislature.

Alderman Pinard asked what is the timetable from tonight. How much time do we have in the Legislature?

Mr. Beaudry answered I was told by our sponsor that they want this bill to get introduced into the House side within the next week to 10 days. This bill, actually because we were so late in introducing it, had to go before the Rules Committee and there are very strict rules that allow this bill to go through and the Speaker of the House, from my understanding, wants the sponsor to introduce this thing within the next week to 10 days because they have deadlines in the House for pass over that they have to get it through their two committees to get it over to the Senate. They have to move fairly quickly and that is the reason why we put this bill in. It wasn't our intention to circumvent the Board of Mayor and Aldermen or anyone else but if we didn't put something in as an intent then we wouldn't have been able to do anything this legislative session. That means they would have had to wait until the 2003 legislative session, go on the ballot in November of 2003 and then you were looking at 2004 before you could implement it. That is why we did what we did because we had to work quickly because of the timeframe of the implementation of the bill.

Alderman Shea stated I need a few clarifications. Does this bill have to go before the full…you are mentioning two committees but doesn't it have to go before the full…

Mr. Beaudry interjected it goes before the full legislative body after every committee. I will give you a for instance for our legislation. I would assume that this is going to go through the same committees. It will go before EDA, which is the Executive Department of Administration. If they support this bill it will be ought to pass. It goes before the full House on the consent calendar. From the consent calendar it would go to Finance because it has a fiscal note on it. Finance will look at the fiscal part of it and then it goes back to the full body again on the fiscal aspect of it and if it goes on the consent calendar then it gets moved to the Senate and in the Senate it basically goes through the same process again. It will go through Senate Insurance. They put it before the full Senate and then it will go before Senate Insurance and then subsequently go before the full Senate again and then it goes to the Governor.

Alderman Shea asked and that is the simple majority.

Mr. Beaudry answered yes throughout the process.

Chairman Lopez stated you mentioned that they can do something administratively on the bill. I notice it says "draft" here. The intent, if this Committee or the full Board were to agree with the changes and when you go before these committees and they want to make changes are you telling me that they can change it? I hope not.

Mr. Beaudry replied I can tell you this. The only way that they would change that is if somebody from the Board of Mayor and Aldermen would go up there and say to change it because they have no reason to touch this bill. It has nothing to do with the NH Retirement System. It has nothing to do with State contributions. It is a local bill and usually local law they are going to do what the Board of Mayor and Aldermen say.

Chairman Lopez stated I have one other question and I ask it only out of curiosity. Is it true that every city and town employee belongs to the State Group 1 insurance.

Mr. Beaudry replied the Manchester Retirement System is the only group of people left in the State that doesn't have a healthcare subsidy. We have teachers, municipal employees, police and fire that all have a healthcare subsidy now. Municipal people were picked up last year. The teachers were picked up two years ago and the fire and police were picked up in 1988. Our subsidy is three times what they were looking at for $2 million. They were only looking at $175 for a two-person plan where the subsidy through the State is $478 right now for a two-person plan. It is a big difference. To answer your question in short, this is the only group of people left in the State that don't have it.

Chairman Lopez stated as I mentioned the effective date of implementation if and when that time comes can be 2003. It doesn't have to be in the middle of a budget year.

Alderman Pinard moved to approve the amendment to Chapter 218, Laws of 1973 of the City Charter as presented. Alderman Shea duly seconded the motion.

Chairman Lopez called for a vote on the motion. There being none opposed the motion carried.

Mr. Beaudry stated under the two pieces of legislation, the date is January 1, 2003 for implementation. If for some reason you want to change that, you would have to do that legislatively and have it changed in the way the law is drafted right now.

Deputy Clerk Johnson stated the whole issue of that January 1 and July date is coming up and I think that if the Board of Mayor and Aldermen would prefer to set it with the fiscal tone of the City then you would approve it with the suggested change to an effective date of July 1, 2003. I guess that would be my suggestion to you because even that bill being introduced the way it is, they can amend that date very easily. That is not a big amendment. That is a very simple thing up there.

Mr. Beaudry replied right they can amend it, but they have to amend it up there.

Deputy Clerk Johnson stated yes and if the recommendation is coming from the Board of Mayor and Aldermen, they are certainly going to make that amendment.

Chairman Lopez stated if the full Board agrees to it and they want to change the effective date then they can do it.

Deputy Clerk Johnson replied the question is does the Committee want to leave it at the January 1 date or do you want to recommend a different date now to the Board because you are going to get into confusion at the Board level.

Mr. Beaudry stated it has been brought to my attention that the bill hasn't been legally introduced yet so we can talk to the sponsor and probably change that date if that is what the Board of Mayor and Aldermen wish.

Alderman Shea moved to change the effective date of the amendment to July 1, 2003. Alderman Sysyn duly seconded the motion.

Chairman Lopez called for a vote on the motion. There being none opposed, the motion carried.

Mr. Porter stated I want to thank the Committee on behalf of the Trustees and the participants.

Mr. Beaudry stated I would also like to extend a thank you very much. I know you guys thought long and hard on this and we appreciate it. I know that the 1,265 members of this system will appreciate it.

There being no further business, on motion of Alderman Pinard, duly seconded by Alderman DeVries, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee